VZCZCXRO6422
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV
DE RUEHFT #0320/01 0240633
ZNR UUUUU ZZH
R 240633Z JAN 07
FM AMCONSUL FRANKFURT
TO RUEHC/SECSTATE WASHDC 9198
INFO RUCNFRG/FRG COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUCNMEM/EU MEMBER STATES COLLECTIVE

UNCLAS SECTION 01 OF 02 FRANKFURT 000320

SIPDIS

DEPARTMENT ALSO FOR DRL/IL
USDOL FOR ILAB

SIPDIS

E.O. 12958: N/A
TAGS: EIND ELAB ECON GM
SUBJECT: Opel/GM Europe Upswing, Return to the U.S. Market

Ref: A) 2006 Frankfurt 7767, B) 2004 Frankfurt 8977

¶1. SUMMARY: Led by German subsidiary Opel, General Motors (GM) Europe posted a profit of $186 million in 2006 (through September) en route to its projected first full-year profit in Europe since ¶1999. Opel in particular has reason to celebrate since it will soon produce more Saab/Vauxhall models and has re-entered the North American market under the Saturn name (the first large-scale Opel exports to the U.S. since the 1970s). GM's recent success in Europe is remarkable given its difficulties at home and the headwinds of the European car market (which remains essentially flat). The turnaround is good news for Opel development and production facilities -- and for former Opel CEO Carl-Peter Forster, likely headed to Detroit -- but some question whether GM Europe can sustain its positive momentum.

Opel Re-emerging After Job Cuts, Improved Quality
-- -

¶2. The lean years at Opel (headquartered in Ruesselsheim near Frankfurt) have come to an end for now. Opel CEO Hans Demant recently made it official that starting in 2008, Opel's flagship plant in Ruesselsheim (GM's most modern production facility) will produce the new GM generation of mid-sized cars to be sold under various brands. By 2008, Ruesselsheim will supply the full production of mid-sized cars in Europe including Saab and Vauxhall. Until then, capacity utilization remains at only 60% (the plant will produce 142,000 units in 2007 out of a capacity of 180,000). Staff will cope by working part-time, and Opel will expand marketing in an attempt to boost sales of the mid-sized Vectra and Signum.

¶3. In Opel's newer models -- most recently the redesigned Corsa (introduced in October 2006) which has overshot expectations and may challenge the VW Polo for leadership in Europe's sub-compact segment -- Opel has managed to boost both quality and consumer appeal: warranty claims for Opel and sister Vauxhall have declined 70% since 2000, with warranty costs per vehicle down 36% over the same period.

Opel's Return to the North American Market
- --

¶4. More good news for Opel is GM's decision to sell Opel models in North America as fuel-efficient mid-market cars. In late 2007, Saturn USA will begin importing the Opel-made Astra (Saturn already offers two other Opel-developed models). The cars will be supplied from Opel's Antwerp plant, slated to produce an extra 20-100,000 units. The positive upshot for Germany is that the extra production will push Antwerp to its capacity limit, meaning the Opel plant in Bochum will produce more Astras. Exports will start in mid-2007 (by which time the Astra must undergo changes to meet U.S. specifications). It will be sold as the Saturn Astra, which expects to improve the "European" image of its brand. At the recent Detroit

Auto Show, the new Saturn Aura (a re-branded Opel Vectra) was named North American "Car of the Year" (beating out for instance the Camry and Accord).

¶5. GM Europe President Carl-Peter Forster called the Opel-Saturn partnership a first step towards closer transatlantic cooperation with GM. In the future, GM will develop a number of models on common U.S./European platforms, meaning it could also export mid-sized cars from Europe to the U.S. (GM can export profitably from Ruesselsheim for quantities up to 100,000 units annually).

Is the European Turnaround Sustainable Without More Cuts?
- -

¶6. In 2006, GM agreed to a "production guarantee" through 2012 for the brandnames Opel and Saab, covering 67,000 workers and seven plants in Western Europe (among them German facilities in Ruesselsheim, Bochum, and Eisenach). The guarantee follows a deep restructuring plan (launched in 2004) in which GM shed 12,000 jobs in Europe (10,000 in Germany) but managed to increase its profit by EUR 500 per vehicle sold in Europe. The turnaround is also likely to bear fruit for GM Europe head Carl-Peter Forster (also de facto head of Opel), whom recent press reports have named as the likely next head of development at GM headquarters in Detroit. To the extent that Forster's star continues to rise, it could bolster U.S.-European integration within the company and the introduction of "European" models.

¶7. Analysts are mixed on GM Europe's longer-term future -- given a flat market and GM's problems at home. While many say publicly that Opel has "turned the corner" (Juergen Pieper, auto analyst at Frankfurt investment bank Metzler), recent positive developments do not convince Ferdinand Dudenhoeffer, head of B&D Forecast (an automotive consultancy) and perhaps Germany's leading industry

expert. Dudenhoeffer has said publicly that GM's European plants are still threatened since capacity utilization is likely to decline again starting in 2009. The European car market remains essentially flat despite positive economic figures, with total sales up only 0.4% in the first nine months of 2006. According to Dudenhoeffer, GM will have to re-consolidate its European facilities in 2010 at the latest, meaning the carmaker may not be able to keep its current job guarantee through 2012 -- and another round of painful cuts -- unless Opel can continue to gain market share at the expense of European competitors. For the time being, Opel may represent a modest success story for General Motors and this region.

¶8. This message was coordinated with Embassy Berlin.

POWELL